Rural Businesses May Benefit from Big Transportation Funding Increases

Most transportation programs received big funding increases in 1998. Major transportation developments included reauthorization of highway and public transit funding programs, continued consolidations in the rail freight industry, and added funding for rural air service.

In June 1998, the Federal-aid highway program was reauthorized, sharply increasing money for Federal-aid highways, highway safety, and transit programs. The Transportation Equity Act for the 21st Century, or TEA-21, is the single largest public works bill in U.S. history, providing $218 billion in funding for highway and transit programs over the next 6 years (1998-2003), a 40-percent funding increase over the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA), which provided funding for highways and transit for the previous 6-year period (1992-97). During 1998-2003, the bill provides $175 billion for the Nation's most important highways, and more than $41 billion for transit programs. In fiscal year 1999, $28.2 billion was authorized for highway funding.

Increased transportation funding is likely to benefit the rural economy. Besides providing many jobs in nonmetro areas, the transportation industry plays a central role in rural economic development far beyond its direct impact. Investment in the transportation network provides access to jobs and services for rural residents and enhances the movement of agricultural and commercial products from rural farms and manufacturers to urban markets. A recent U.S. Department of Transportation-funded study showed that almost one-fifth of the increase in productivity in the U.S. economy between 1980 and 1991 was attributable to investment in highways (see American Association of State Highway and Transportation Officials, *Transportation and the Economy: National and State Perspectives,* May 1998).

Under TEA-21, Federal highway aid continues to be allocated to the States, with every State except Massachusetts (which was advanced funds under the previous highway legislation) receiving funding increases. On average, the annual apportioned amount received by States grows by 44 percent. Since Federal highway aid goes to States, which then decide how to use the money based on their individual priorities, it remains difficult to definitively say how future funding increases will affect rural areas. Based on previous funding patterns, nonmetro per capita funding levels are highest for counties in the West.

Many of the States receiving big funding increases are located in the South (fig. 1). Research indicates that rural highway spending is positively correlated with employment gains in the manufacturing sector, and manufacturing is the most important nonmetro economic activity among those States receiving large funding increases (fig. 2). Much of the Rocky Mountain West will also receive big increases, likely benefiting rural communities in that region which are highly dependent on highways, due to their remote location. Farming is the most important nonmetro economic activity in many States receiving smaller increases in aid. These States are concentrated in the Midwest, as well as in the Northeast. Most of the Midwest farming States will receive relatively small increases in aid.

TEA-21 continues aid for the smallest rural communities under the Surface Transportation Program (STP) "special rule" that targets highway funds to areas with populations less than 5,000. Although this is an important source of funding for some rural areas, it fails to take into account that many rural communities have populations greater than 5,000, and are therefore ineligible for funding under this set-aside.

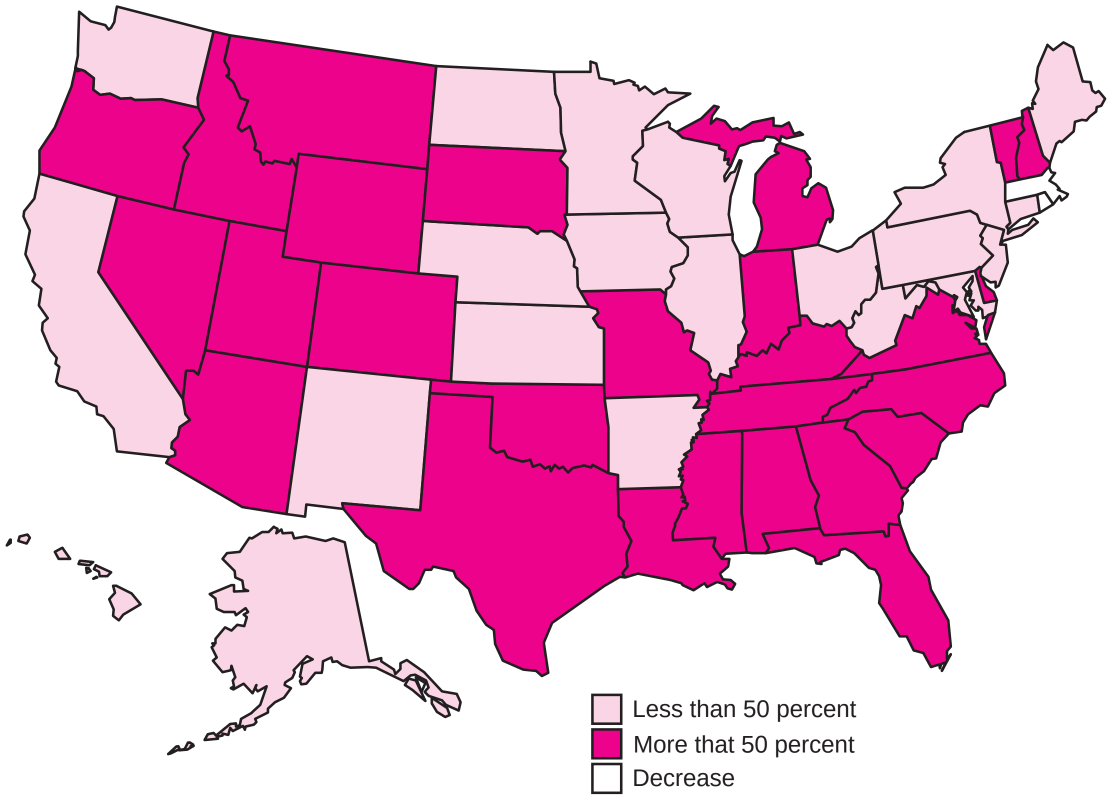
TEA-21 provides a total of $2.25 billion during 1999-2003 for the Appalachian Development Highway system, a program that is designed to provide aid for the construction of highways and access roads in Appalachia. Funding for this program may benefit rural industries located in Appalachia, such as mining and manufacturing, as well as tourism, recreation and service industries. The new legislation also provides $148 million for the National Scenic Byways Program, which offers technical assistance and grants to States for the development of recreational use roads, which are located primarily in rural areas.

TEA-21 continues to fund "transportation enhancement" (TE) activities (environmental, recreational, and general development activities) through a 10-percent set-aside from STP

Figure 1

Percent change in State transportation funding under TEA-21 versus ISTEA

States in the South and Rocky Mountain West receive highest funding increases

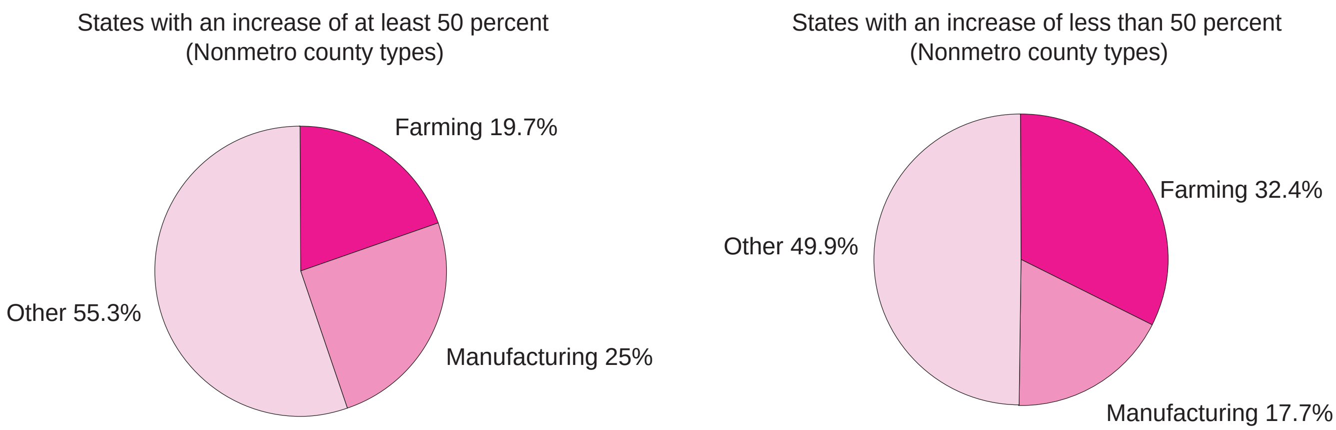


Source: Senate Environment and Public Works Committee.

Figure 2

Nonmetro county types by State-level changes in highway funding under TEA-21, 1998-2003

States with the largest funding increases have a larger share of manufacturing counties and fewer farming counties



Source: Calculated by ERS using data from U.S. Bureau of the Census.

funds. Some have argued that TE funding takes scarce resources away from rural (and urban) highway needs by using money for programs other than roads and bridges. Others contend that enhancements are important for rural businesses, and that greater flexibility is needed in allowing their use for a wider variety of economic development projects. TEA-21 allows a State to transfer a portion of its TE funds to other programs.

Rural Transit Programs Receive Record Funding

In recent years, lack of public transportation has emerged as an important issue for rural areas. For many rural households, lack of transportation limits access to employment opportunities and health and child care, and reduces the choices available when shopping for food and other items. Labor shortages have been increasingly common in hospitality, food service, and other industries in close proximity to rural areas with surplus labor, and there has been increased pressure to find jobs for welfare recipients with welfare-to-work legislation. These factors have combined to bring attention to public transportation needs in rural areas.

Under TEA-21, rural transit's share of funds available under the Nation's transit funding formula increased 16 percent in 1998. The new legislation also increases the main rural transit program's (section 5311) fiscal year 1999 funding 32 percent over 1998 levels to nearly $180 million, which is nearly double the increase received by urban transit programs. For the first time in the program's history, these funding increases are guaranteed or "walled-off," assuring transit an estimated 80-percent return on authorized funding levels (in contrast, highways have traditionally received nearly 100 percent of authorizations). These funding increases will likely benefit rural residents who rely on transit as a means of getting to and from medical appointments, child care facilities, and jobs. In particular, rural businesses, such as those in the service industry, that rely on public transit as a source of transportation for their workers will likely benefit. Nonmetro service-dependent counties are found throughout the Nation, with significant clusters located in parts of the West and the Midwest.

The new legislation also provides $44.7 million for the Rural Transportation Accessibility Incentive Program, which supports "over-the-road" bus service. This program is designed to help bus operators finance capital and training costs associated with complying with U.S. Department of Transportation regulations on intercity bus service. Funding for this program is to be distributed through a competitive grant selection process.

New under TEA-21 is the Access to Jobs program, which will provide $150 million in 1999 for transportation programs that offer access to jobs. Under this program, 20 percent of program funds ($30 million) is reserved for rural areas (with populations less than 50,000). Important considerations in allocating funds include the number of welfare recipients in the target area, the extent to which applicants demonstrate coordination with existing public and human services transit agencies, and the degree of innovativeness of specific approaches. Rural areas with large numbers of service-dependent industries, in particular, may benefit from this program.

Railroad Industry Continues To Consolidate

Disruptions of rail service due to railroad consolidations have become an item of concern for the Nation's farm and business communities. Much of the Nation's bulk commodities and manufactured goods are moved by rail. Traffic flows along the Nation's rail network were severely disrupted in mid-1997 and 1998 when the Nation's largest freight rail company, Union Pacific, continued to absorb operations of the Southern Pacific railroad, with which it merged in 1996. Although the long-term economic effects of consolidations in the rail freight industry remain unclear, severe short-term disruptions have occurred as congestion on rail routes initially centered in Texas quickly spread to other States. Among the industries most negatively affected have been chemicals and automobiles, as well as most bulk commodities. Changing trade flows due to NAFTA (the North American Free Trade Agreement) have also created transportation bottlenecks along the U.S.-Mexico border, which has disrupted rail service, prompting Congress to provide $700 million for border projects and major road corridors for north-south trade. As shippers have attempted to shift to other transportation modes, many trucking operations have been unable to keep up with the growing demand for their services, further tying up the Nation's rural transportation freight network.

In mid-1998, the Surface Transportation Board (STB), the Federal agency that oversees all mergers in the rail freight industry, approved the purchase of the Consolidated Rail Corporation (commonly referred to as Conrail) by Norfolk Southern and CSX railroads. This occurred despite rail traffic disruptions that resulted from the Union Pacific-Southern Pacific merger, and despite concerns about lack of competition in grain transport arising from the 1995 merger of the Burlington Northern and Santa Fe lines. The Conrail breakup is not expected to significantly hurt competition in rail service because bulk commodities, with the exception of coal, have not traditionally moved in large volume on Conrail's routes. Water and truck shipments compete on some Conrail routes, and past mergers have shown that these transportation modes when used together can provide effective long-haul competition for rail service. The absorption of Conrail by CSX and Norfolk Southern may also retain competition in some key markets, and add to it in others.

To avoid traffic disruptions like those that followed the Union Pacific merger with Southern Pacific, the STB will closely monitor the situation, maintaining weekly reports on rail congestion in former Conrail railyards. The STB also has frozen shipping rates for 3 years for some shippers and has taken steps to ensure that some smaller lines do not lose access to the new network. These provisions may provide some relief to agricultural and other bulk commodity shippers.

Continuing consolidations in the rail freight industry have added to the fortunes of "small railroads" (railroads with 1995 annual revenues less than $255.9 million). The establishment of a small railroad in a local area, a strategy that became increasingly popular after the railroad industry was deregulated in 1980, has provided a number of rural areas with a mechanism to prevent some of the negative effects of mergers, while ensuring that smaller communities continue to be served by rail service in the face of what would otherwise have been a rail abandonment. For some areas, this can be a useful option, since recent evidence indicates that one in six rural manufacturers located in the most rural counties perceive that lack of access to rail lines is a significant problem affecting their ability to compete (see David McGranahan, *Local Problems Facing Manufacturers,* USDA/ERS, AIB-736-03, March 1998). Since deregulation, numerous small railroads have been expanded or established on routes that were either abandoned or faced abandonment, with such small railroads growing nationally in size from 18,255 miles in 1980 to 45,300 miles in 1995.

Federal funding for the establishment of small railroads is available through the U.S. Department of Transportation's Local Rail Freight Assistance program. Program funds have been used in the past to conduct rail planning activities, acquire railroads, and rehabilitate existing rail facilities, although no new funding was made available in fiscal year 1998. The program continues to operate on carryover funds.

Passenger Rail Service Gets Added Boost

In the fall of 1997, the Nation's passenger rail network received a 5-year, $2.2-billion subsidy for capital improvements (to be used for upgrading track, signals, and other capital stock), which reflects Congress's objective to have Amtrak subsidy-free by 2002. The current (fiscal year 1999) Department of Transportation appropriations legislation provides no separate authorization for ongoing maintenance expenses on Amtrak's network, but provisions allow these expenses to be met through capital accounts. While the impact of added capital funding on the long-term state of the Nation's rural passenger rail network is still unclear, specific nonmetro industries that rely on passenger rail service as a source of transportation for their workers and customers, such as the tourism and service industries, may benefit. Also positively affected may be low-income residents, the elderly, and persons with disabilities, since Amtrak represents one of the few viable transportation options for nonmetro residents without access to automobiles. However, relatively few nonmetro communities have Amtrak service.

Some rural businesses may benefit from the recent establishment of freight shipment services along some of Amtrak's routes. Designed to provide a new source of revenue to the quasi-public passenger rail service agency, isolated rural businesses that require rapid shipment of small packages but lacking adequate air freight facilities may benefit from this new service (if near communities that have Amtrak service).

Rural Air Service Benefits from Funding Increases

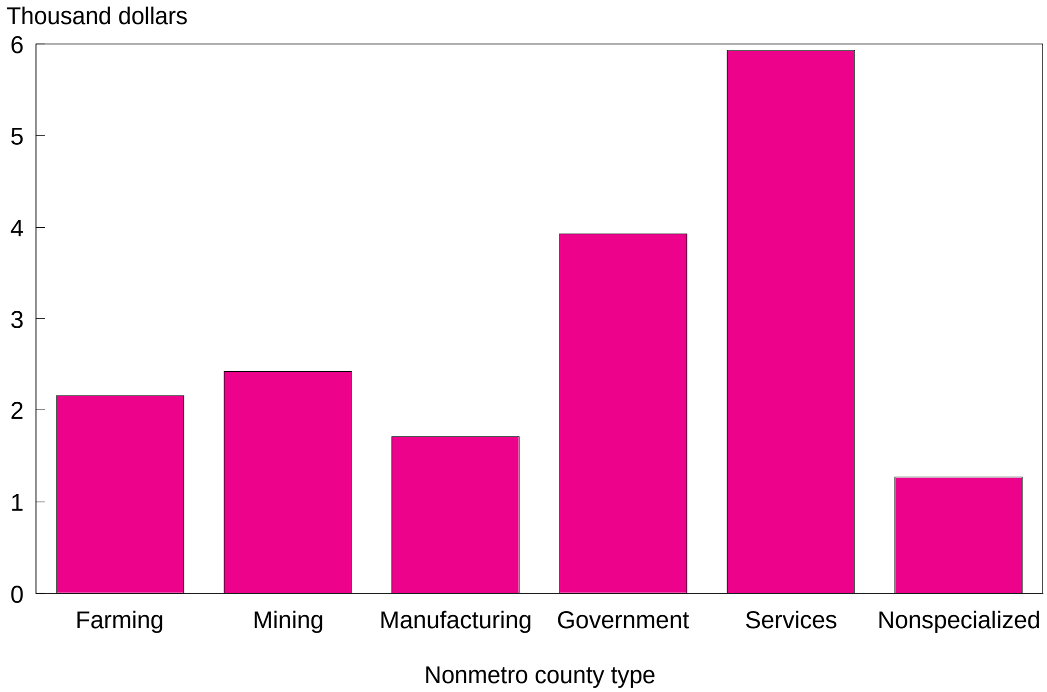
Rural air service may get a boost with the aviation bill, which is up for reauthorization in 1999. Legislators remain concerned about the level of concentration in the airline industry among a few major carriers, which may have resulted in higher ticket prices in some markets. In an attempt to deal with these competitive concerns, provisions have been inserted into the reauthorization legislation which are designed to increase air service to rural areas, although details are still being worked out (as of this writing). Rural areas may also be affected by the recent tightening of safety and maintenance standards on commuter aircraft that serve 10 or more passengers. Recent evidence indicates that rural air service remains an important factor in attracting and retaining business for nonmetro communities, especially manufacturing and high-tech businesses. More stringent safety standards may result in a loss of air service for some small communities as costs associated with operating commuter air service increase in some rural areas.

The $1.7-billion (1998) Airport Improvement Program, which provides grants for airport capital projects, such as runway repaving, control tower improvements, and aviation safety projects, received a 16-percent increase in funding for 1998. This increase may prove beneficial to a variety of nonmetro businesses that rely on air service, including those in the service industry. Nonmetro services-dependent counties, which are located throughout the Nation, with clusters in the West and Midwest, received the highest per capita funding for this program (fig. 3). The $50-million (1998) Essential Air Services program, which funds air service for small communities that lost it after deregulation, received a nearly 100-percent funding increase in 1998. The increase was attributable to the development of new funding sources for this program, which provided for a more stable revenue stream. This program mostly benefits a small number of rural communities mainly in the Midwest, the Rocky Mountain States, and Alaska. *[Dennis Brown, 202-694-5338, dennisb@econ.ag.gov]*

Figure 3

Per capita grants for Airport Improvement Program, fiscal year 1996

Services-dependent counties get the most aid



Source: Calculated by ERS using Federal Funds data from U.S. Bureau of the Census.